

Summary

The informal economy represents an important share of GDP and total employment in both the so-called developed and developing countries. Far from being either a panacea or a curse, the informal economy is a double-edged sword. On one hand it represents a source of livelihoods for lower income populations and it helps circumvent burdensome regulation. On the other hand, high shares of informal economy hinder economic growth and reduce government revenues, whilst they are associated with lower capital intensity, minor labour productivity and worse labour conditions.

The prevalence of the informal economy and its persistence over time has led policymakers to implement policies seeking the formalization of the informal economy. Formalization is typically seen as the remedy for boosting economic growth and improving labour conditions. Yet, the manifold efforts put in place by governments and policymakers are far from achieving the intended outcome of transitioning activities from the informal to the formal economy.

Since its first definition in the early 1970's, the concept of informal economy has been at the centre of a vivid academic debate. Over the years, a proliferation of studies contributed to advance a better understanding of the nature of informal activities. Whilst the literature agrees on describing the informal economy as a heterogeneous set of activities, still there is no consensus concerning the main drivers of formalization.

Set against this background, the research at hands puts forward new theoretical and analytical tools for studying informal entrepreneurship. To this extent, meta-analysis techniques are employed for systematically assessing the present evidence on the effects of policies promoting formalization and on the effects of formalization on business performance. Secondly, drawing on the ILO 2002 conceptual framework, the research adopts a new heuristic that goes beyond the dichotomist contraposition between formality and informality.

The manuscript is articulated in two parts. The first part (chapters 3 to 6) gathers empirical evidence for going beyond the discourse on informal firms' formalization, whilst the second half outlines a new approach that goes beyond the formal/informal dichotomy.

The first part takes stock of the empirical literature on business formalization and systematically analyse the existing evidence using meta-regression analysis techniques. This part develops four chapters to explore the impact of interventions promoting business formalization on various formality indicators and the effects of formalization on several business performance indicators. The analysis identifies limited impact of formalization policies on business formalization and stresses the need for

new policies (Chapter 3). Furthermore, the comparative meta-analysis indicates that experimental studies report higher impact compared to quasi-experimental studies, although the former reveal severe upward bias (Chapter 4).

The first part of the manuscript concludes by meta-analysing the effects of formalization on various business performance indicators as reported in the empirical literature. The findings indicate that overall formalization does not improve business performance (Chapter 5), and that policy-induced formalization is associated with higher benefits compared to self-induced formalization (Chapter 6). Taken together, the meta-analyses suggest that the limited effects of policy aiming at business formalization may be accounted for by the low benefits associated with business formalization.

Having established a gap concerning the reasons underpinning entrepreneurs' decision to formalize, the second part opens with a case study of Indonesian enterprises operating in three West Javanese cities (Chapter 7). The study presents the main self-reported reasons underpinning business registration and identifies higher political participation and improved civic engagement among the main characteristics of registered enterprises.

Following the Lakatosian notion of research program, the research then outlines the new approach and empirically tests the new heuristic using secondary data from 19 countries across the world (Chapter 8), and with a case study of Indonesian enterprises (Chapter 9). Central to the new approach are the concepts of '*borderland*' defined as the space of overlap between formality and informality, and '*trans-formal* firms' which are enterprises neither purely formal nor purely informal. The empirical tests indicate that the majority of the studied enterprises present traits of trans-formality. The studied trans-formal firms averagely represent the missing middle between informal lower-tier activities and formal upper-tier enterprises.

The manuscript concludes with a discussion of the main theoretical implications, insights for policy action and new paths for future researches.